

COMMONWEALTH OF KENTUCKY-TRANSPORTATION CABINET
STATEMENT OF REVENUES AND OTHER RECEIPTS
OTHER EXPENDABLE TRUST FUND
JULY 1, 2001 TO JUNE 30, 2002

	ACTUAL REVENUES
<u>REVENUE FROM OTHER GOVERNMENTS</u>	
TRANSPORTATION SERVICE DELIVERY RECEIPTS	43,139,788
TOTAL REVENUE FROM OTHER GOVERNMENTS	43,139,788
TOTAL CURRENT YEAR RECEIPTS	43,139,788
TOTAL CASH RECEIPTS	43,139,788

**COMMONWEALTH OF KENTUCKY-TRANSPORTATION CABINET
ALLOTMENT AND EXPENDITURES STATEMENT
OTHER EXPENDABLE TRUST FUND
JULY 1, 2001 TO JUNE 30, 2002**

	SOURCE OF ALLOTMENTS			DISPOSITION OF BALANCE			FORWARDED (SEE NOTES)	LAPSE
	PRIOR YEAR ALLOTMENTS	CURRENT YEAR ALLOTMENTS	TOTAL ALLOTMENTS	OUTSTANDING ENCUMBRANCES	EXPENDITURES AND TRANSFERS	BALANCE		
PUBLIC TRANSPORTATION								
CONSERVATION - MASS FED AID								
EA54 HUMAN SERVICES TRANSPORTATION	-	-	-	-	41,197,073	(41,197,073)	-	(41,197,073)
TOTAL CONSERVATION - MASS FED AID	-	-	-	-	41,197,073	(41,197,073)	-	(41,197,073)
TOTAL PUBLIC TRANSPORTATION	-	-	-	-	41,197,073	(41,197,073)	-	(41,197,073)
TOTAL OTHER EXPENDABLE TRUST FUND FY02	-	-	-	-	41,197,073	(41,197,073)	-	(41,197,073)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

COMMONWEALTH OF KENTUCKY-TRANSPORTATION CABINET
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
OTHER EXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2002

INTERGOVERNMENTAL REVENUES:	
PUBLIC TRANSPORTATION	<u>43,139,788</u>
TOTAL REVENUES	43,139,788
EXPENDITURES:	
PUBLIC TRANSPORTATION	<u>41,197,073</u>
TOTAL EXPENDITURES	<u>41,197,073</u>
EXCESS OF EXPENDITURES OVER REVENUES	<u>1,942,715</u>
FUND BALANCE, JULY 1, 2001	<u>(579,852)</u>
FUND BALANCE, JUNE 30, 2002	<u><u>1,362,863</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

**COMMONWEALTH OF KENTUCKY-TRANSPORTATION CABINET
STATEMENT OF CASH FLOWS
OTHER EXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED, 2002**

ACCOUNT NAME	CASH ACCOUNT NUMBER	CASH AND CASH EQUIVALENTS 07/01/01	REVENUES	OTHER CASH INCREASES	EXPENDITURES	OTHER CASH DECREASES	CASH AND CASH EQUIVALENTS AT FY ENDED, 2002 (NET OF ACCRUALS)
PUBLIC TRANSP	EA54	(579,852)	43,139,788		41,197,073		1,362,863
TOTALS		(579,852)	43,139,788		41,197,073		1,362,863

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

**TRANSPORTATION CABINET
COMMONWEALTH OF KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

A) Basis of Presentation

This annual report provides detailed balance sheet information for resources, liabilities, reserves and fund balances. Separate revenue and expenditure statements have been developed for each Fund in accordance with recommended governmental accounting procedures for financial reporting.

The more significant accounting policies of the Transportation Cabinet are as follows:

1) Basis of Accounting

Consistent with past practices, the annual Financial Statement of the Transportation Cabinet is prepared on a modified cash basis of accounting and is prepared primarily for internal use of Cabinet management in evaluating current financial position. Revenue is recorded when received in cash and expenditures are recorded when disbursements are made.

Appropriations and estimated revenues are formally recorded in the accounts for budgetary control purposes. Budgetary control over appropriations is enhanced through the use of an encumbrance system of accounting.

2) Cash and Investments

All cash on deposit with the State Treasurer is held in the Commonwealth's general depository bank account. The Cabinet's cash balances are invested in the state cash and investment pool under the auspices of the State Investment Commission as authorized under KRS 42.500.

3) Inventories

Expenditures for expendable supplies are recorded as expenditures when purchased. The cost of expendable supplies inventories at June 30, 2002 was \$30,131,243.03.

The inventory value is not reflected on the balance sheet of the annual statements, however, current year purchases of expendable supplies are reported as expenditures.

**TRANSPORTATION CABINET
COMMONWEALTH OF KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002**

Significant accounting policies, continued:

4) Capital Assets

The approximate cost of fixed assets at June 30, 2002, is as follows:

	Beginning Balance <u>July 1, 2001</u>	<u>Additions</u>	<u>Disposals</u>	Ending Balance <u>June 30, 2002</u>
Land	\$ 9,793,022		(4,000)	9,789,022
Building	67,388,941	2,839,542	(79,897)	70,148,586
Office Equipment	5,821,125	366,981	(601,958)	5,586,148
Construction & Maintenance Equip	111,315,068	7,751,357	(502,276)	118,564,149
Data Processing	6,238,794	654,271	(108,825)	6,784,240
Construction In Progress	20,024,780	14,662,036	(3,815,034)	30,871,782
Infrastructure	<u>12,687,653,548</u>	<u>1,326,796,703</u>	<u></u>	<u>14,014,450,251</u>
Total Capital Assets	<u>\$12,908,235,278</u>	<u>\$1,353,070,890</u>	<u>\$(5,111,990)</u>	<u>\$14,256,194,178</u>

5) Pension Plan

The Road Fund is required to make stipulated contributions to the Kentucky Retirement System on behalf of all eligible full-time employees. The employer and employee contribution rates for the year ended June 30, 2002 were 5.89% and 5% of creditable compensation, respectively. For Motor Vehicle Enforcement, however, when there was Hazardous Duty, the employer and employee contribution rates for the year ended June 30, 2002 were 18.84% and 8% of creditable compensation, respectively. Such rates were determined to provide for normal costs and interest on unfundable prior service costs. The Pension expenditures (employer's portion) through June 30, 2002 are approximately \$14M.

6) Accumulated Employee Benefits

The value of accumulated vacation liability at June 30, 2002, was \$29,502,959.00, and accumulated compensatory time liability was \$7,956,763.00. The accumulated vacation dollar liability is restricted to the number of years service for an employee. The compensatory dollar liability is restricted to 240 hours pay per employee.

B) Fund Structure

The financial statements include the accounts of the Road, Federal, General, Agency, Fleet Management, Other Expendable Trust, and Capital Project's Funds of the Transportation Cabinet of the Commonwealth of Kentucky.

**TRANSPORTATION CABINET
COMMONWEALTH OF KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002**

Significant accounting policies, continued:

1) Road Fund

This fund consists of money derived from excise or license taxation relating to gasoline and other motor fuels, and money derived from fees, excise or license taxation relating to registration, operation or use of vehicles for use on public highways. Use of these funds is restricted to expenditures relating to the cost of administration, statutory refunds and adjustments, payment of highway obligations, costs for construction, reconstruction, rights-of-way, maintenance and repair of public highways and bridges, and the expense of enforcing state traffic and motor vehicle laws.

2) Federal Fund

This fund includes all receipts from the federal government paid to the Transportation Cabinet as reimbursement for expenditures incurred on federal grant programs.

3) General Fund

This fund consists of moneys appropriated by the General Assembly to the Transportation Cabinet from the Commonwealth's General Fund. General Fund appropriations to the Transportation Cabinet are primarily used for non-highway program functions.

4) Agency Fund

This fund includes receipts collected from and expended for specific programs, most of which are defined in Kentucky Revised Statutes. Additionally, the Agency Fund accounts for expenditures of proceeds received from the sale of The Economic Development Road (Revitalization Projects) Revenue Bonds.

5) Fleet Management

This internal service fund accounts for the financial operations of the statewide motor pool. All operating costs of the motor pool are charged to the fund as is the acquisition of fund assets. Rental income is recorded from user state agencies.

6) Other Expendable Trust Fund

This fund includes expenditures for the Human Service Transportation Delivery system. This fund pays the providers for transportation of claimants to and from medical and rehabilitation appointments.

7) Capital Projects Fund

This fund includes transactions relating to the acquisition, construction, or renovation of the Cabinet's major capital facilities and for the acquisition of major non-highway equipment.

**TRANSPORTATION CABINET
COMMONWEALTH OF KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002**

NOTE 2 CHANGES IN ACCOUNTING PRINCIPLES, REPORTING PRACTICES, AND PRIOR PERIOD ADJUSTMENTS

Fleet Management Fund – The Fleet Management Fund was restated for Fixed Assets previously omitted in error. The effect on beginning retained earning was an increase of \$1,540,548.

Federal Fund – The Federal Fund was restated due to an understatement in the previous year. The effect on the beginning fund balance was an increase of \$483.

NOTE 3 CASH IN BANKS AND ON HAND

Cash in banks and on hand at June 30, 2002, includes \$2,191,904.54 on deposit in toll road depository banks which includes \$1,900,000.00 that was not subject to withdrawals per compensating balance agreements with the toll road depositories. Also, \$680,028.36 was on deposit in other governmental agencies' construction cooperative escrow trust accounts.

**NOTE 4 MOTOR FUEL NORMAL USE AND MOTOR FUELS NORMAL TAXES
MUNICIPAL AID AND COUNTY ROAD AID**

KRS 179.400 provides that any county or municipality receiving state aid may, if it deems proper, enter into a cooperative agreement with the Department of Rural and Municipal Aid. The agreement shall designate the roads which the Department shall be required to construct, reconstruct or maintain and shall not be in excess of the projected allotment for county road aid and municipal aid funds for any one fiscal year. At June 30, 2002, 120 counties and 106 cities were participants in cooperative programs.

NOTE 5 COMMITMENTS AND CONTINGENCIES

A) Lease Commitments with the Turnpike Authority of Kentucky

The cabinet operates certain toll roads within the Commonwealth of Kentucky under lease-rental agreement with the Turnpike Authority of Kentucky (Authority). The lease-rental agreements cover a two-year period with automatic renewal options for each succeeding two-year period until all bonds have been retired.

The agreements provide, among other things, annual rental payments to be made from the Cabinet in amounts equal to the debt service requirements of the Authority's revenue bonds issued to finance the construction of the toll roads, and for the Cabinet to maintain and operate the toll roads during the period in which the revenue bonds are outstanding, and to collect and retain the tolls collected from users of the toll roads.

The cabinet entered into additional lease-rental agreements and a supplement thereto with the Authority for the construction of various coal-haul roads under Resource Recovery Road System and construction of economic development road projects under the Economic Development Road System. The terms of these agreements are similar to those covering the aforementioned toll roads except that these agreements make no provision for the collection of tolls.

Approximate rental commitments, net of projected interest earnings on debt service reserve funds, for leases with the Authority, assuming the exercise of the lease renewal options, are:

**TRANSPORTATION CABINET
COMMONWEALTH OF KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002**

Commitments and contingencies, continued:

Fiscal Year	Toll Roads	Resource Recovery Roads	Economic Development Roads	Total
2003	548,600	26,204,914	144,212,781	170,966,295
2004	548,600	38,759,487	125,305,243	164,613,330
2005	19,489,550	38,761,578	69,263,064	127,514,192
2006	9,069,000	38,758,594	78,435,802	126,263,396
2007	0	0	112,216,900	112,216,900
THEREAFTER	<u>0</u>	<u>7,164,032</u>	<u>495,631,418</u>	<u>502,795,450</u>
	<u>\$29,655,750</u>	<u>\$149,648,605</u>	<u>\$1,025,065,208</u>	<u>\$1,204,369,563</u>

B) Lease Commitments with the State Property and Buildings Commission

During the fiscal year ended June 30, 2002, the Transportation Cabinet entered into a lease-rental agreement with the State Property and Buildings Commission for the construction of a new office building. Under the terms of the lease-rental agreement, the State Property and Buildings Commission has issued bonds to construct the project, known as Project 73. The lease-rental agreement covers a two-year period with automatic renewal options for each succeeding two-year period until all bonds have been retired. The lease requires the Transportation Cabinet, for each biennial period during which bonds are outstanding, to seek legislative appropriations in amounts which are sufficient to permit the Transportation Cabinet to make rental payments to the Commission to pay principal of and interest on the bonds. The following is a summary of the lease commitments outstanding as of June 30, 2002:

Fiscal Year	Project 73
2003	7,165,547.50
2004	7,335,485.00
2005	7,317,255.00
2006	7,328,062.50
2007	7,297,725.00
THEREAFTER	<u>107,500,318.93</u>
TOTAL	<u>\$143,944,393.93</u>

**TRANSPORTATION CABINET
COMMONWEALTH OF KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002**

Commitments and contingencies, continued:

C) Litigation

As of June 30, 2002, the Cabinet had been named as defendant in various legal actions seeking recovery of \$39,100,000.00 in the aggregate. The Cabinet's General Counsel estimates that \$18,378,640.00 of this amount represents a probable liability. There is no liability on the balance sheet for these amounts, however, any liability would be covered by funds in the Reserve for Continued Appropriation including encumbrances

D) Worker's Compensation Program

The Cabinet is self-insured for worker's compensation insurance provided to the employees of the Cabinet. The losses incurred by the Fund are serviced by a designated third party administrator who processes and reports all claims.

The Cabinet is also a member of the Statewide Worker's Compensation Program (Special Fund), which covers pre-existing conditions to protect employers from having to pay for injuries not sustained in their employ, or more than once for disabilities sustained in their employ, or more than once for disabilities resulting from the same accident.

At June 30, 2002, the Cabinet's Worker's Compensation Program's administrator has established an unpaid claims liability of \$21.2 million. This liability is funded from the Road Fund on a year to year basis through the budget process and no long-term liability is reflected on the balance sheet.

NOTE 6 SPECIAL DEPOSIT TRUST FUND

The Transportation Cabinet's share of special and refundable deposits as of June 30, 2002 were:

1. Guaranty & Miscellaneous Deposits	\$ 3,303,953.86
2. Vehicle Enforcement	102,505.47
3. Cash Bonds	1,588,269.35
4. Turnpike Projects/Coupon Payments	6,559.23
5. IRP County Share	23,274,560.13
6. Special Collegiate Plate	59,068.35
7. IRP Out of State Share	1,441,264.39
8. Single State Registration System	455,363.45
9. Usher Transport-Refund	2,210,872.30
10. Usher Transport-Administrative	1,807,994.60
11. Special Plate Holding Account	121,205.50
12. Internet Renewal Clerk Fees	<u>398.52</u>
 TOTAL	 <u><u>\$34,372,015.15</u></u>

These amounts represent funds received by the Transportation Cabinet and held in a fiduciary capacity pending distribution to other political subdivisions or third parties. This amount is not included on the balance sheet of the annual financial statements.

**TRANSPORTATION CABINET
COMMONWEALTH OF KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002**

NOTE 7 OTHER SPECIAL REVENUE FUNDS

Accounted within the Other Special Revenue Funds, but not included in the balance sheet, are two restricted accounts. First is the Kentucky Airport Loan Fund. This account is administered by Transportation's Division of Aeronautics and is used to aid local airport boards who experience difficulty in obtaining funds locally for facility improvements. Fund availability as of June 30, 2002, was \$111,659.44.

Second is the Project 73 Interest Earnings Fund. This account represents interest earned on the investment of bond proceeds obtained for the construction of the new Transportation Office Building. Fund availability as of June 30, 2002, was \$1,098,304.88.

NOTE 8 OTHER SIGNIFICANT EVENTS

The 2000 General Assembly appropriated \$35,494,000 of the State Road Fund dollars to the Commonwealth's Revenue, Justice, Finance and Governor's Office for Technology Cabinets. These appropriations will be used by the Transportation Cabinet for collection of Road Fund taxes, enforcement of state traffic and motor vehicle laws, and furnishing mail and information technology services for the year ended June 30, 2002.